

Office of the State Auditor
Division of State Audit

North Dakota State University
Fargo, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 23500

Robert R. Peterson
State Auditor



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Transmittal Letter

May 9, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. Joseph Chapman, President, North Dakota State University

We are pleased to submit this audit of North Dakota State University for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Robyn Hoffmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Dr. Chapman and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

Honoring the commitment of the Morrill Act of 1862, the land-grant universities were established to provide studies that were a blend of technical and academic subjects. Known as a "people's college," North Dakota State University was part of the bold experiment to provide access to a college education for the common person.

North Dakota State University is well positioned to prepare graduates for the global marketplace and technologically oriented economy. Through a statewide network of centers and electronic technology, NDSU provides a growing capability for delivering education, cultural activities, and information to schools and homes throughout North Dakota. North Dakota State University is a publicly supported comprehensive land-grant institution, with a strong agriculture and applied science tradition.

North Dakota State University is clearly an institution of choice. Having experienced a remarkable period of growth and with the development of expanded academic opportunities, NDSU is a national model of the contemporary land-grant institution.

A university with more than 12,000 students in its undergraduate and graduate programs, NDSU's research expenditures surpass \$100 million annually.

The Carnegie Foundation for the Advancement of Teaching classifies NDSU among "Research Universities (high research activity)" in its new "basic" classifications of United States colleges and universities. NDSU is in the same Carnegie category as institutions such as Boston College, Brigham Young University, Clemson University, Georgetown University, Marquette University, Temple University, and the University of Oregon.

An institution committed to progress, NDSU continues to advance in all areas because of the energy and dedication of faculty, staff, students, alumni, and friends.

More information may be obtained from North Dakota State University's home page at: <http://www.ndsu.edu/>.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our finding addressing coaches and support staff travel (see page 26), we determined compliance with statutes, laws, rules, and regulations was adequate.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing controls over expenses (see page 22), we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no findings or recommendations in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 28 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

North Dakota State University has several related parties where management serves on the board of directors of the related parties. The President of North Dakota State University serves on the board of directors of the following related parties: North Dakota State University Research Foundation, North Dakota State University Development Foundation, and North Dakota State University Research and Technology Park. The Vice President of Research, Creative Activities, and

Technology Transfer serves on the board of directors of North Dakota State University Research Foundation and North Dakota State University Research and Technology Park. The Provost and Vice President of Academic Affairs serves on the board of directors of North Dakota State University Research Foundation and North Dakota State University Research and Technology Park.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by North Dakota State University include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

In our fiscal years 2007 and 2006 North Dakota University System audit reports, all of the material adjustments we proposed for North Dakota State University were recorded. See Posted Audit Adjustments 5, 10, 12, 15, and 17 on pages 23-25 of the 2007 North Dakota University System audit report and Posted Audit Adjustments 1, 6, and 17 on pages 16 and 18 of the 2006 report.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance System – including accounts payable, asset management, commitment control, general ledger, grants management, and purchasing; Human Resource Management System (HRMS) and Student Administration System – including admissions, student records, financial aids, and student finance are high-risk information technology systems critical to North Dakota State University. The current audit findings are not directly related to the operation of an information technology system.

Background Information

With energy and momentum, the mission of North Dakota State University addresses the needs and aspirations of people in a changing world by building on our land-grant foundation. We envision a vibrant university that will be globally identified as a contemporary metropolitan land-grant institution.

North Dakota State University exists as a human endeavor; a means to accomplish a greater good. Its About People, acknowledges the service we do for our fellow citizens, but also emphasizes the institutional commitment to the people of North Dakota State University and our desire to reward those whose efforts are serving the public's interests.

In recent years, NDSU has seen tremendous growth in the size of our student body from some 9,700 students in 1999 to our goal of more than 12,000 students. NDSU's growth is grounded in the strength of our existing programs and fueled by the strategic addition of new programs. Undergraduate education remains the foundation of our educational offerings while new graduate programs are retaining and keeping young people in the state. NDSU students are active partners in our institutional transformation.

NDSU is experiencing a period of remarkable success. Few universities have experienced our growth in enrollment, research expenditures, program expansion, or growth in campus infrastructure in such a short time. Our faculty, staff, and students have seized upon an opportunity to be more and have catapulted this university forward. NDSU's institutional stature also is being increased through a very successful transition in intercollegiate athletics to Division I. We are increasing awareness of our state and representing North Dakota with pride and competitive excellence.

More information can be obtained from the agency's home page at: <http://www.ndsu.edu/>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of North Dakota State University for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of North Dakota State University's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to North Dakota State University and are they in compliance with these laws?
3. Are there areas of North Dakota State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of North Dakota State University for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Tested and analyzed samples of travel expenses and purchase card transactions.
- Performed detailed analytical procedures related to statement of net asset items, revenue and expenses, and statement of cash flow items.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed North Dakota State University written plans and applicable manuals.
- Observed North Dakota State University's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

Discussion And Analysis

The accompanying financial statements do not have the disclosures required by generally accepted accounting principles (GAAP) and have been prepared in a condensed form to present North Dakota State University's financial position and the results of operations in a manner similar to that used for financial reporting in the private sector. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles.

For the biennium ended June 30, 2007, operations of North Dakota State University were primarily supported by appropriations from the state's general fund (26%), student tuition and fees (23%), and federal grants and contracts (23%). Resources were mainly used to pay salaries and wages (62%).

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts and auxiliary enterprises. Nonoperating revenues during the audited period included mainly state appropriations, gifts, and federal appropriations. These revenues remained fairly consistent between fiscal years 2007 and 2006, except for student tuition and fees which increased \$12.1 million because of a 10% tuition increase and ConnectND monies of \$3 million and for state and local grants and contracts which decreased \$7.8 million because of fewer Center of Excellence monies for fiscal year 2007. Total revenues were \$285,031,743 for the year ended June 30, 2007 as compared to \$275,225,677 for the year ended June 30, 2006.

Total expenses for North Dakota State University were \$273,792,010 for the year ended June 30, 2007 as compared to \$262,386,066 for the prior year. The change in total expenses for June 30, 2007 was primarily due to salaries and wages increasing \$7.5 million.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES

North Dakota State University had no significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

STATEMENT OF NET ASSETS

	June 30, 2007	June 30, 2006
ASSETS		
Cash and cash equivalents	\$ 19,454,954	\$ 11,679,045
Investments	62,426,298	65,865,109
Accounts receivable, net	4,299,023	3,340,161
Receivable from component units		216,784
Due from state general fund	4,099,293	11,107,338
Grants and contracts receivable, net	19,132,809	22,303,805
Notes receivable, net	6,600,641	6,794,537
Inventory	1,812,224	1,582,208
Other assets	436,718	784,034
Unamortized bond discount and cost of issuance	3,183,597	2,046,959
Capital assets, net	204,477,141	186,881,020
Total Assets	\$ 325,922,698	\$ 312,601,000
LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,399,347	\$ 8,297,233
Accrued payroll	6,720,027	5,804,830
Deferred revenue	2,587,896	2,435,973
Deposits	1,027,131	1,711,443
Advances from Bank of ND		2,440,020
Due to component units	36,744,554	16,563
Due to others	71,296,442	106,987,370
Total Liabilities	\$ 129,775,397	\$ 127,693,432
NET ASSETS		
Invested in capital assets, net of related debt	\$ 109,752,519	\$ 111,684,884
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	369,753	369,753
Expendable:		
Scholarships and fellowships	159,281	124,538
Research	14,960,327	14,530,891
Instructional department uses	1,445,663	1,526,681
Loans	7,051,196	7,346,162
Capital projects	219,534	636,542
Debt service	4,003,795	4,037,926
Unrestricted	58,185,233	44,650,191
Total Net Assets	\$ 196,147,301	\$ 184,907,568

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2007	June 30, 2006
OPERATING REVENUES		
Student tuition and fees	\$ 71,727,041	\$ 59,615,278
Federal grants and contracts	63,482,409	63,265,077
State and local grants and contracts	4,779,538	12,581,922
Nongovernmental grants and contracts	6,363,527	5,475,176
Sales and services of educational departments	17,033,788	16,757,741
Auxiliary enterprises	28,899,999	26,665,594
Other	328,624	85,100
Total Operating Revenues	\$ 192,614,926	\$ 184,445,888
OPERATING EXPENSES		
Salaries and wages	\$ 168,955,800	\$ 161,477,752
Operating expenses	67,116,220	62,802,163
Data processing	5,607,902	5,530,763
Depreciation	13,078,949	12,956,359
Scholarships and fellowships	5,049,042	4,255,478
Cost of sales and services	9,053,537	11,524,218
Total Operating Expenses	\$ 268,861,450	\$ 258,546,733
Operating loss	\$ (76,246,524)	\$ (74,100,845)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 72,584,110	\$ 70,618,625
Federal appropriations	4,294,673	6,001,531
Federal grants and contracts	99,869	86,850
Gifts	9,153,105	8,550,209
Investment income	4,432,508	2,776,908
Interest on capital asset-related debt	(4,476,018)	(3,814,206)
Gain on capital assets	163,914	605,755
Insurance proceeds	150,000	10,000
Tax revenues	362,995	360,686
Other nonoperating expenses	(454,542)	(25,127)
Net Nonoperating Revenues	\$ 86,310,614	\$ 85,171,231
Income before capital grants and gifts	\$ 10,064,090	\$ 11,070,386
State appropriations-capital assets	\$ 826,789	\$ 1,769,225
Capital grants and gifts	348,854	
Total Other Revenues	\$ 1,175,643	\$ 1,769,225
Increase in net assets	\$ 11,239,733	\$ 12,839,611
NET ASSETS		
Net assets-beginning of the year, as restated	184,907,568	172,067,957
Net assets-end of the year	\$ 196,147,301	\$ 184,907,568

STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 71,736,625	\$ 58,680,492
Grants and contracts	76,679,441	84,645,034
Payments to suppliers	(79,135,452)	(83,416,726)
Payments to employees	(167,545,937)	(159,315,762)
Payments for scholarships and fellowships	(5,049,042)	(4,255,478)
Loans issued to students	(1,464,073)	(1,487,219)
Collection of loans to students	1,278,529	1,563,818
Auxiliary enterprise charges	28,692,546	26,277,112
Sales and service of educational departments	17,218,700	16,762,390
Cash (paid) received on deposits	(284,908)	130,213
Other receipts	290,559	102,441
Net cash used by operating activities	\$ (57,583,012)	\$ (60,313,685)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 79,420,733	\$ 59,867,648
Federal appropriations	4,294,673	6,001,531
Grants and gifts received for other than capital purposes	10,347,218	8,766,605
Advances from Bank of North Dakota		140,020
Principal paid on advances from Bank of North Dakota	(2,440,020)	(100,000)
Agency fund cash decrease	(268,245)	(428,168)
Tax revenues	362,995	360,686
Other nonoperating revenues (expenses)	17,032	(25,127)
Net cash provided by noncapital financing activities	\$ 91,734,386	\$ 74,583,195
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 22,835,000	\$ 28,690,000
Capital appropriations	998,211	3,027,269
Capital grants and gifts received	237,839	
Proceeds from sale of capital assets	177,900	77,141
Purchases of capital assets	(27,776,205)	(17,961,637)
Insurance proceeds		10,000
Principal paid on capital debt and lease	(3,748,998)	(3,710,244)
Deposits with capital debt payment trustees	(21,209,620)	(35,000)
Interest paid on capital debt and lease	(4,996,305)	(3,853,867)
Net cash (used) provided by capital and related financing activities	\$ (33,482,178)	\$ 6,243,662
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 21,177,376	\$ 8,239,493
Interest on investments	3,929,337	2,721,718
Purchase of investments	(18,000,000)	(40,424,192)
Net cash provided (used) by investing activities	\$ 7,106,713	\$ (29,462,981)
Net increase (decrease) in cash	\$ 7,775,909	\$ (8,949,809)
Cash - Beginning of year	11,679,045	20,628,854
Cash - End of year	\$ 19,454,954	\$ 11,679,045

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating loss	\$ (76,246,524)	\$ (74,100,845)
Adjustment to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	13,078,949	12,956,359
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(556,928)	(1,281,287)
Grants and contracts receivable	2,053,967	3,322,859
Inventories	(230,016)	300,223
Notes receivable	193,896	155,056
Other assets	(606,384)	(256,687)
Accounts payable and accrued liabilities	3,453,150	(3,992,747)
Accrued payroll	351,727	929,726
Compensated absences	1,058,136	1,232,264
Deferred revenue	151,923	291,181
Deposits	(284,908)	130,213
Net cash used by operating activities	<u><u>\$ (57,583,012)</u></u>	<u><u>\$ (60,313,685)</u></u>

SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

Assets acquired through capital lease	2,568,892	\$ 9,512,599
Expenses paid by capital lease/special assessment	432,812	
Gifts of capital assets	111,015	28,656
Total non-cash transactions	<u><u>\$ 3,112,719</u></u>	<u><u>\$ 9,541,255</u></u>

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

NORTH DAKOTA STATE UNIVERSITY

Expenses by line item:	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 75,804,650	\$ 9,276,160	\$ 85,080,810	\$ 85,080,810	
Capital assets	1,692,226		1,692,226	1,692,226	
Capital assets - carryover		40,662	40,662	40,662	
Capital improvements - Off system					
Bison Court Apartments		2,686,992	2,686,992	1,718,054	\$ 968,938
Bison Sports Arena		15,000,000	15,000,000	3,259	14,996,741
Hazard material facility	3,500,000		3,500,000	348,853	3,151,147
Memorial Union renovation	22,000,000		22,000,000	15,096,807	6,903,193
Wellness Center addition	12,000,000		12,000,000	8,681,537	3,318,463
2000 flood expenditures		289,092	289,092	241,792	47,300
Totals	\$ 114,996,876	\$ 27,292,906	\$ 142,289,782	\$ 112,904,000	\$ 29,385,782

Expenses by source:

General fund	\$ 77,496,876	\$ 9,605,914	\$ 87,102,790	\$ 87,055,490	\$ 47,300
Special fund	37,500,000	17,686,992	55,186,992	25,848,510	29,338,482
Totals	\$ 114,996,876	\$ 27,292,906	\$ 142,289,782	\$ 112,904,000	\$ 29,385,782

Appropriation Adjustments:

Operating expenses

The \$9,276,160 adjustment is comprised of the following:

- \$8,356,378 transfer from NDUS technology fund pursuant to Senate Bill 2003 section 7, 2005 session;
- \$900,000 equity pool allocation pursuant to Senate Bill 2003 section 9, 2005 session;
- \$19,782 transfer from the NDUS contingency fund for disabled student services pursuant to Senate Bill 2003 section 8, 2005 session.

Capital assets - carryover

The \$40,662 adjustment is the prior biennium unspent general fund and is carried over pursuant to House Bill 1003 section 9, 2003 session.

Capital improvement – Off system

These adjustments are the unspent balances of the various capital improvement projects approved in prior bienniums.

2000 flood expenditures

This adjustment is the deficiency appropriation transferred pursuant to Senate Bill 2023 section 1 of the 2007 session laws. This was an emergency measure therefore the amount was transferred in the 2005 biennium.

UPPER GREAT PLAINS TRANSPORTATION INSTITUTE

	Original		Final		Unexpended
Expenses by line item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Transporation Institute	\$ 16,452,937		\$ 16,452,937	\$ 12,086,902	\$ 4,366,035
Totals	\$ 16,452,937	\$ -	\$ 16,452,937	\$ 12,086,902	\$ 4,366,035
Expenses by source:					
General fund	\$ 1,162,904		\$ 1,162,904	\$ 1,155,613	\$ 7,291
Special fund	15,290,033		15,290,033	10,931,289	4,358,744
Totals	\$ 16,452,937	\$ -	\$ 16,452,937	\$ 12,086,902	\$ 4,366,035

Appropriation Adjustments:

None

EXTENSION SERVICE

	Original		Final		Unexpended
Expenses by line item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
NDSU - Extension Services	\$ 37,542,499	\$ 66,000	\$ 37,608,499	\$ 31,737,140	\$ 5,871,359
Soil Conservation Committee	837,238	28,460	865,698	865,698	-
Totals	\$ 38,379,737	\$ 94,460	\$ 38,474,197	\$ 32,602,838	\$ 5,871,359
Expenses by source:					
General fund	\$ 15,358,146	\$ 94,460	\$ 15,452,606	\$ 15,452,606	
Special fund	23,021,591		23,021,591	17,150,232	\$ 5,871,359
Totals	\$ 38,379,737	\$ 94,460	\$ 38,474,197	\$ 32,602,838	\$ 5,871,359

Appropriation Adjustments:

NDSU - Extension Service

This adjustment is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

Soil Conservation Committee

This adjustment is the unspent general fund from the prior biennium carried over pursuant to House Bill 1021 section 5 of the 2003 session laws.

MAIN RESEARCH STATION

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operations	\$ 75,456,713	\$ (150,000)	\$ 75,306,713	\$ 68,285,667	\$ 7,021,046
Totals	\$ 75,456,713	\$ (150,000)	\$ 75,306,713	\$ 68,285,667	\$ 7,021,046

Expenses by source:					
General fund	\$ 30,794,067	\$ (150,000)	\$ 30,644,067	\$ 30,644,067	
Special fund	44,662,646		44,662,646	37,641,600	\$ 7,021,046
Totals	\$ 75,456,713	\$ (150,000)	\$ 75,306,713	\$ 68,285,667	\$ 7,021,046

Appropriation Adjustments:

Operations

This adjustment is a transfer pursuant to Senate Bill 2020 section 5 of the 2005 session laws for the following:

- \$66,000 Extension
- \$12,000 Dickinson
- \$12,000 Central Grasslands
- \$12,000 Hettinger
- \$12,000 Langdon
- \$12,000 North Central
- \$12,000 Williston
- \$12,000 Carrington

DICKINSON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Dickinson Research Center	\$ 5,563,870	\$ 1,292,571	\$ 6,856,441	\$ 5,363,187	\$ 1,493,254
Totals	\$ 5,563,870	\$ 1,292,571	\$ 6,856,441	\$ 5,363,187	\$ 1,493,254

Expenses by source:					
General fund	\$ 1,799,589	\$ 12,000	\$ 1,811,589	\$ 1,811,589	
Special fund	3,764,281	1,280,571	5,044,852	3,551,598	\$ 1,493,254
Totals	\$ 5,563,870	\$ 1,292,571	\$ 6,856,441	\$ 5,363,187	\$ 1,493,254

Appropriation Adjustments:

Dickinson Research Center

This adjustment is comprised of two amounts.

- \$1,280,571 was a building project authorized by Senate Bill 2020 section 11 of the 2005 session laws;
- \$12,000 is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

CENTRAL GRASSLANDS RESEARCH CENTER

Expenses by line item:	Original <u>Appropriation</u>	<u>Adjustments</u>	Final <u>Appropriation</u>	<u>Expenses</u>	Unexpended <u>Appropriation</u>
Central Grasslands Research	\$ 2,335,297	\$ 12,000	\$ 2,347,297	\$ 2,161,451	\$ 185,846
Totals	<u>\$ 2,335,297</u>	<u>\$ 12,000</u>	<u>\$ 2,347,297</u>	<u>\$ 2,161,451</u>	<u>\$ 185,846</u>

Expenses by source:					
General fund	\$ 897,618	\$ 12,000	\$ 909,618	\$ 909,618	
Special fund	1,437,679		1,437,679	1,251,833	\$ 185,846
Totals	<u>\$ 2,335,297</u>	<u>\$ 12,000</u>	<u>\$ 2,347,297</u>	<u>\$ 2,161,451</u>	<u>\$ 185,846</u>

Appropriation Adjustments:

Central Grasslands Research

The \$12,000 adjustment is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

HETTINGER RESEARCH CENTER

Hettinger Research Center	\$ 1,809,657	\$ 12,000	\$ 1,821,657	\$ 2,389,380	\$ (567,723) *
Totals	<u>\$ 1,809,657</u>	<u>\$ 12,000</u>	<u>\$ 1,821,657</u>	<u>\$ 2,389,380</u>	<u>\$ (567,723)</u>

Expenses by source:					
General fund	\$ 942,453	\$ 12,000	\$ 954,453	\$ 954,453	
Special fund	867,204		867,204	1,434,927	\$ (567,723) *
Totals	<u>\$ 1,809,657</u>	<u>\$ 12,000</u>	<u>\$ 1,821,657</u>	<u>\$ 2,389,380</u>	<u>\$ (567,723)</u>

* This overspent line item was authorized by Senate Bill 2020 section 4 from the 2005 session, which appropriates all additional income for the purpose designated in the act, grant, or donation. The additional income is not included in the appropriation, but the expenses associated with the additional income are included.

Appropriation Adjustments:

Hettinger Research Center

The \$12,000 adjustment is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

LANGDON RESEARCH CENTER

Langdon Research Center	\$ 1,336,094	\$ 12,000	\$ 1,348,094	\$ 1,524,391	\$ (176,297) *
Totals	<u>\$ 1,336,094</u>	<u>\$ 12,000</u>	<u>\$ 1,348,094</u>	<u>\$ 1,524,391</u>	<u>\$ (176,297) *</u>

Expenses by source:

General fund	\$ 895,151	\$ 12,000	\$ 907,151	\$ 907,151	
Special fund	440,943		440,943	617,240	\$ (176,297) *
Totals	<u>\$ 1,336,094</u>	<u>\$ 12,000</u>	<u>\$ 1,348,094</u>	<u>\$ 1,524,391</u>	<u>\$ (176,297) *</u>

* This overspent line item was authorized by Senate Bill 2020 section 4 from the 2005 session, which appropriates all additional income for the purpose designated in the act, grant, or donation. The additional income is not included in the appropriation, but the expenses associated with the additional income are included.

Appropriation Adjustments:

Langdon Research Center

The \$12,000 adjustment is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

NORTH CENTRAL RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
North Central Research	\$ 3,930,540	\$ 412,000	\$ 4,342,540	\$ 3,721,808	\$ 620,732
Totals	<u>\$ 3,930,540</u>	<u>\$ 412,000</u>	<u>\$ 4,342,540</u>	<u>\$ 3,721,808</u>	<u>\$ 620,732</u>

Expenses by source:

General fund	\$ 853,252	\$ 412,000	\$ 1,265,252	\$ 867,372	\$ 397,880
Special fund	3,077,288		3,077,288	2,854,436	222,852
Totals	<u>\$ 3,930,540</u>	<u>\$ 412,000</u>	<u>\$ 4,342,540</u>	<u>\$ 3,721,808</u>	<u>\$ 620,732</u>

Appropriation Adjustments:

North Central Research

The \$412,000 adjustment is comprised of the following:

- \$12,000 is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.
- \$400,000 is for the laboratory and greenhouse project, authorized by House Bill 1020 section 15 of the 2007 session laws.

WILLISTON RESEARCH CENTER

	Original		Final		Unexpended
Expenses by line item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Williston Research Center	\$ 2,271,878	\$ 12,000	\$ 2,283,878	\$ 2,029,652	\$ 254,226
Totals	<u>\$ 2,271,878</u>	<u>\$ 12,000</u>	<u>\$ 2,283,878</u>	<u>\$ 2,029,652</u>	<u>\$ 254,226</u>
Expenses by source:					
General fund	\$ 1,241,813	\$ 12,000	\$ 1,253,813	\$ 1,253,813	
Special fund	1,030,065		1,030,065	775,839	\$ 254,226
Totals	<u>\$ 2,271,878</u>	<u>\$ 12,000</u>	<u>\$ 2,283,878</u>	<u>\$ 2,029,652</u>	<u>\$ 254,226</u>

Appropriation Adjustments:

Williston Research Center

The \$12,000 adjustment is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

CARRINGTON RESEARCH CENTER

	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Expenses by line item:					
Carrington Research Center	\$ 4,258,340	\$ 12,000	\$ 4,270,340	\$ 4,441,642	\$ (171,302) *
Totals	<u>\$ 4,258,340</u>	<u>\$ 12,000</u>	<u>\$ 4,270,340</u>	<u>\$ 4,441,642</u>	<u>\$ (171,302)</u>
Expenses by source:					
General fund	\$ 1,756,433	\$ 12,000	\$ 1,768,433	\$ 1,768,433	
Special fund	2,501,907		2,501,907	2,673,209	\$ (171,302) *
Totals	<u>\$ 4,258,340</u>	<u>\$ 12,000</u>	<u>\$ 4,270,340</u>	<u>\$ 4,441,642</u>	<u>\$ (171,302)</u>

* This overspent line item was authorized by Senate Bill 2020 section 4 from the 2005 session, which appropriates all additional income for the purpose designated in the act, grant or donation. The additional income is not included in the appropriation, but the expenses associated with the additional income are included.

Appropriation Adjustments:

Carrington Central Research

The \$12,000 adjustment is a transfer from the Main Station pursuant to Senate Bill 2020 section 5 of the 2005 session laws.

AGRONOMY SEED FARM

	Original		Final		Unexpended
Expenses by line item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Agronomy Seed Farm	\$ 1,201,008		\$ 1,201,008	\$ 835,213	\$ 365,795
Totals	\$ 1,201,008	\$ -	\$ 1,201,008	\$ 835,213	\$ 365,795

Expenses by source:

General fund					
Special fund	\$ 1,201,008		\$ 1,201,008	\$ 835,213	\$ 365,795
Totals	\$ 1,201,008	\$ -	\$ 1,201,008	\$ 835,213	\$ 365,795

Appropriation Adjustments:

None

FOREST SERVICE

	Original		Final		Unexpended
Expenses by line item:	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operating expenses	\$ 2,925,646	\$ 55,500	\$ 2,981,146	\$ 2,870,603	\$ 110,543
Capital assets	101,638		101,638	101,638	
Biennium carryover		215,838	215,838	203,221	12,617
Totals	\$ 3,027,284	\$ 271,338	\$ 3,298,622	\$ 3,175,462	\$ 123,160

Expenses by source:

General fund	\$ 2,052,283	\$ 55,500	\$ 2,107,783	\$ 2,107,783	
Special fund	975,001	215,838	1,190,839	1,067,679	\$ 123,160
Totals	\$ 3,027,284	\$ 271,338	\$ 3,298,622	\$ 3,175,462	\$ 123,160

Appropriation Adjustments:

Operating expenses

The \$55,000 adjustment is the deficiency appropriation transferred pursuant to Senate Bill 2023 section 1 of the 2007 session laws. This was an emergency measure therefore the amount was transferred in the 2005 biennium.

Biennium carryover

The \$215,838 adjustment is the prior biennium unspent special fund authority that was authorized in the 2003 biennium.

NORTHERN CROPS INSTITUTE

Northern Crops Institute	\$ 1,902,683		\$ 1,902,683	\$ 1,903,489	\$ (806) *
Totals	<u>\$ 1,902,683</u>	<u>\$ -</u>	<u>\$ 1,902,683</u>	<u>\$ 1,903,489</u>	<u>\$ (806)</u>

Expenses by source:

General fund	\$ 910,761		\$ 910,761	\$ 910,761	
Special fund	991,922		991,922	992,728	\$ (806) *
Totals	<u>\$ 1,902,683</u>	<u>\$ -</u>	<u>\$ 1,902,683</u>	<u>\$ 1,903,489</u>	<u>\$ (806)</u>

* This overspent line item was authorized by Senate Bill 2020 section 4 from the 2005 session, which appropriates all additional income for the purpose designated in the act, grant or donation. The additional income is not included in the appropriation, but the expenses associated with the additional income are included.

Appropriation Adjustments:

None

Internal Control

Internal Controls Subjected To Testing

In our audit for the biennium ended June 30, 2007, we identified the following areas of North Dakota State University's internal control as being the most important:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect North Dakota State University's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of North Dakota State University in the management letter located on page 28 of this report.

Finding 07-1

CONTROLS SURROUNDING EXPENSES

We noted the following weaknesses surrounding the processing of expenses that were not detected by NDSU's internal control system:

- Our test of 25 purchase card expenses disclosed support could not be found for one of the items; eight items had no supervisory approval; and eight items exceeded the individual purchase card maximum of \$5,000.
- Our test of 20 travel expenses disclosed that two items were overpaid by \$106. In one instance an employee was reimbursed the full lodging charge even though the charge was for two people and in the other instance, an employee was reimbursed for in-state lodging at a rate that exceeded the allowable in-state maximum.
- Our test of 28 expenses during the financial audit disclosed two items that were not properly supported. In one instance, there was an incomplete list of attendees to support the meal

charge and in the other instance; an un-itemized credit card receipt was used to support the meal charge.

Good internal controls require proper and adequate detailed support be submitted prior to payment. NDSU's purchasing card user manual (March 2007) states the program authorizes the use of a purchasing card for individual transactions up to and including \$5,000. The manual also states that the reviewer's responsibilities include signing the purchasing card record form to certify that purchases are for business purposes and are in compliance with appropriate rules and regulations to the best of the reviewer's knowledge. NDCC 44-08-04 (2) lists per diem rates required to be used in-state while on travel status.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that NDSU improve internal control surrounding the review and approval of vouchers and purchase card transactions by:

- Obtaining complete and adequate supporting documentation before making payment.
- Ensuring proper supervisory approvals are obtained for purchase card transactions and individual purchase card maximums are not exceeded.
- Verifying employee's travel claims to ensure that per diem rates are in accordance with NDCC 44-08-04.

North Dakota State University Response:

Agree. More care will be taken in the auditing of credit card and travel expenses.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested North Dakota State University's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- SBHE entered into an agreement with NDSU Foundation or other private entity to do all things necessary and proper to authorize construction by the Foundation or other private entity of a college of business building on the NDSU campus, using donations, gifts or other private funds (05 SB 2003, chapter 31, section 15).
- SBHE authorized NDSU to request of the city of Fargo creation of a \$1,025,000 special improvement district to finance necessary repairs and improvements to Seventeenth Avenue located on the NDSU campus (05 SB 2003, chapter 31, section 19).
- Upper Great Plains Transportation Institute used \$360,000 out of moneys in the general fund for the purpose of performing the transportation study provided for in Senate Bill No. 2032 for the biennium beginning July 1, 2005 and ending June 30, 2007 (05 SB 2018, chapter 46, section 6).
- \$800,000 of the appropriation provided in subdivision 4 of section 3 was a continuation of funding for the beef systems center of excellence as provided in section 9 of chapter 20 of the 2003 session laws (05 SB 2020, chapter 48, section 8).
- Two full-time equivalent positions for the Beef Systems Center of Excellence were not filled and the related funding for salaries and wages were not spent until the State Board of Agricultural Research and Education enters into a business partnership agreement for the Beef Systems Center of Excellence (05 SB 2020, chapter 48, section 9).
- \$100,000 of the appropriation provided in subdivision 4 of section 3 was used to construct an equipment storage facility at the Williston research center (05 SB 2020, chapter 48, section 10).
- Indebtedness issued during the biennium beginning July 1, 2005 and ending June 30, 2007 was used for the purpose of financing the following capital projects: a.) NDSU hazardous material handling and storage facility - \$3,500,000; b.) North Central research center agronomy laboratory and greenhouse - \$440,000; c.) Central Grasslands research extension center office addition - \$270,000; and d.) Main research center greenhouse complex - \$2,000,000 (05 SB 2023, chapter 51, section 1).

- North central research center obtained \$1,250,000, or so much of the sum as may be necessary, from federal or other funds to assist in the construction of the agronomy laboratory; Central grasslands research extension center obtained \$80,000, or so much of the sum as may be necessary, from federal or other funds to assist in the construction of the office addition; and main research center obtained \$5,000,000, or so much of the sum as may be necessary, from federal or other funds to assist in the construction of the greenhouse complex (05 SB 2023, chapter 51, section 1).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, Section 1 of the North Dakota Constitution; Attorney General's opinion dated September 13, 1963; NDCC 1-08-02, 1-08-04, 15-10-12, 15-67-01, 15-67-04, 15-67-05, and 15-67-07).
- Surplus property (NDCC 54-44-04.6).
- Lease and financing arrangements in budget requests and lease analysis requirements (NDCC 54-44.1-06 and 54-27-21.1).
- Inventory records and reporting (NDCC 44-04-07 and 54-27-21).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-.5, and 44-08-04.3 and 54-06-09 parts 1a, 1b, 3, 4, 5, and 6).
- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-05, 54-44.4-06, 54-44.7-02, 54-44.4-02, 44-08-01, and 48-01.1-03).
- Conflict of Interest (NDCC 12.1-13-03 and 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-04, 47-30.1-02.1, 47-30.1-03.1 and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond revenue and reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).
- Eighteenth street development fund (NDCC 15-12-27).

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this

finding, we concluded there was compliance with the legislative intent identified above.

Finding 07-2

COACHES AND SUPPORT STAFF TRAVEL

NDSU coaches and support staff are not required to complete individual travel reimbursement vouchers when traveling with their respective teams. Their expenses are included as part of team travel and charged to account 521105, Travel – Students, rather than being charged as employee expenses. For our audit period, the total expenses charged to account 521105 were over \$3.7 million.

State Board of Higher Education (NDUS Human Resource Policy Manual section 31) requires employees who are authorized to travel at institutional expense to submit a detailed record of travel expenses on a travel reimbursement voucher. Following this policy provides the means for complying with state statute including NDCC sections:

- 44-08-04 which provides the allowable reimbursement rates for employees and states employees who are authorized to travel at institutional expense are required to make a claim including a lodging receipt. (Current procedures throughout the state are to make claim(s) by submitting a detailed record of travel expenses on a travel voucher.)
- 44-08-05.1 (1) which states any public officer or employee who has the power to approve a payment for travel expenses or any other expenditure of public funds shall determine before approving the payment: If for employee travel reimbursement, the sums claimed for travel expenses are actually due the individual who is seeking reimbursement, allowance, or payment.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that NDSU:

1. Comply with State Board of Higher Education policy and require all employees including coaches and support staff to submit a detailed record of travel expenses, as an employee, on a travel reimbursement voucher for all travel, and;
2. Code employee travel to the appropriate employee travel account numbers.

North Dakota State University Response:

Disagree. Requiring separate detailed vouchers for each employee traveling with athletic teams unnecessarily creates added paperwork and administrative burdens. Coaches and support staff traveling with the team and not separating lodging and other receipts is common practice in athletics across the country, at least among Division 1 institutions.

In the opinion of both the NDSU and NDUS legal counsels, the current practices do not need be changed to provide a means for complying with the laws cited above. The auditors may want to discuss this opinion with the NDSU or NDUS legal counsel for more information.

NDSU agrees with the recommendation on the need to comply with State Board of Higher Education policy. As a result, a policy amendment will be made to update the NDUS Human Resource Policy Manual to allow for the current practice of accounting for athletic team travel expenses to continue.

The expense coding is a matter of choosing between various account codes within the travel line item. NDSU's account coding guidelines currently allow for coding the travel expenses of coaches, or other employees accompanying the students/athletes, to be included with the rest of team trip expenses. Coding the expenses in this manner provides more useful management information than splitting up the costs.

Auditor's Concluding Remark's:

Miscoding transactions does not seem to be either an efficient or effective management practice. It should not take any longer to code transactions properly. Individual travel vouchers are needed to document that allowable, statutory employee travel reimbursement rates have not been exceeded, since there is no similar limitation on students.

Management Letter (Informal Recommendations)

May 9, 2008

Dr. Joseph Chapman
President
North Dakota State University
Fargo, ND 58102

Dear Dr. Chapman:

We have performed an audit of North Dakota State University for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of North Dakota State University's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state, private or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

NEPOTISM

Informal Recommendation 07-1:

NDSU was not maintaining or tracking related employees and therefore was not adequately monitoring compliance with nepotism requirements. In 2008, a listing of potential related employees was started, but has not been completed.

We recommend that NDSU identify and track family members employed at their institution for potential non-compliance with NDCC 44-04-09, NDUS procedure 603.3, and NDSU policy section 110.

North Dakota State University Response:

Agree. NDSU surveyed and identified the related employees at one point in time during fiscal 2008 (as indicated above), but may have a need for assistance from the State Auditors Office to agree on an appropriate way identify changes and track the information on an on-going basis.

PLEDGE OF SECURITIES

Informal Recommendation 07-2:

At June 30, 2007, the balance of the State Forest Service clearing account in Western State Bank of Towner exceeded FDIC insurance by \$66,248 with no pledges of securities to cover the excess amount.

We recommend that NDSU implement procedures to prevent the balance of the State Forest Service clearing account from exceeding the \$100,000 FDIC insurance. If there is a business need for exceeding \$100,000 then NDSU should request and receive adequate pledged securities from the bank prior to exceeding \$100,000.

North Dakota State University Response:

Agree. This account is a temporary clearing account for Forest Service deposits which ultimately are transferred to the Bank of North Dakota. With heavy tree sales during the month of June each year, the bank balance sometimes temporarily exceeds the FDIC insurance coverage. To remedy this problem, more frequent transfers to the Bank of North Dakota will be done during June each year.

SOLE SOURCE AND BIDDING

Informal Recommendation 07-3:

A John Deere no-till drill was leased as a sole source item for \$53,500 and was not bid. In addition, two equipment items purchased as sole source for \$78,750 and \$7,500 were not approved by the purchasing director.

We recommend that NDSU limit sole source purchases to products that have unique characteristics and properties. Also, sole source purchases should be approved by the purchasing director.

North Dakota State University Response:

Partially Agree. Because the Purchasing Director cannot always be present, the buyers in the Purchasing Office need to be delegated authority to approve sole source purchases. The intent of the sole source form is to document the circumstances making the sole source purchase the best option. However, as a result of this audit recommendation, improvements in the handling of the sole source form have been implemented to better document the need and approval of the sole source purchase.

I encourage you to call me (701) 239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

John Grettum, CPA
Audit Manager